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C O N F I D E N T I A L SECTION 01 OF 02 VALLETTA 000168

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DEPARTMENT FOR EUR/WE; TREASURY FOR CHRISTINE CLARK

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TAGS: [KTFN](#) [PTER](#) [IR](#) [EFIN](#) [PARM](#) [MT](#)  
SUBJECT: MALTA RESPONDS POSITIVELY TO U/S LEVEY'S MESSAGE  
ON IRAN

REF: VALLETTA 89

Classified By: MCummings for reasons 1.4 (b) and (d)

¶1. (C) Summary. In meetings with senior Maltese Government officials on April 16, 2008, Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey urged Malta to protect its financial system from abuse by Iran, including through implementation of paragraph 10 of UNSCR 1803 (requiring states to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran). He expressed concern about a particular bank in Malta, the First International Merchant Bank. He also urged Malta to support EU implementation of UNSCR 1803 and further EU action against Iran, including designation of Iran,s Bank Melli. U/S Levey's GoM interlocutors appeared to clearly understand the dangers and downsides of doing business with Iran and were receptive to his message. End summary.

LEVEY MESSAGE: VIGILANCE, ON IRANIAN BUSINESS TRANSACTIONS  
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¶2. (C) U/S Levey met a number of senior GOM officials: the Foreign Minister, Tonio Borg; Leonard Callus, from the Office of the Prime Minister (OPM); David Pullicino, Deputy Governor of the Central Bank; Andre Camilleri, Director-General of the Malta Financial Services Authority (MFSA), Sylvio Camilleri, Attorney General and chair of the Financial Intelligence Analysis Unit (FIAU); and Alan Caruana, Head of Secretariat at the Ministry of Finance. Throughout the day,s meetings, Levey emphasized the importance of GOM vigilance in monitoring Iranian business and financial activity in Malta. GOM officials responded positively and raised their own concerns about Iran,s attempts to exploit their financial system.

IRAN,S CREATIVE USE OF EUROPEAN FINANCIAL INSTITUTIONS  
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¶3. (C) Levey explained that Iranian banks pose a risk to the international financial system, as Iran, particularly through its state-owned banks, employs deceptive techniques to evade the controls of responsible institutions. Levey pointed out that as major European banks scale back their business with Iran, the banks that continue to do business with Iran bear a disproportionate risk of getting tied up in potentially illicit activity.

4.(C) In each of his meetings, Levey emphasized the risks of doing business with Iran. He noted the two advisories by the

Financial Action Task Force warning of those risks. He also cautioned about Iran's use of its banks to pursue proliferation and terrorism activities and pointed to the UN Security Council's recognition of that with its designation of Bank Sepah in UN Security Council Resolution (UNSCR) 1747.

He also noted the new UNSCR 1803, requiring governments and regulators to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, in particular Banks Melli and Saderat, and their branches and subsidiaries abroad. Taken together, these international steps warrant extreme caution in dealing with Iran.

15. (C) In meetings with OPM, Ministry of Finance, MFSA and the Central Bank, U/S Levey raised concerns about an increase in the volume of Iranian activity at the First International Merchant (FIM) Bank of Malta. He said that FIM Bank appeared to be establishing itself as a niche bank for the kind of business that other banks around the world are rejecting. Camilleri at MFSA said that this information called for further scrutiny and MFSA would evaluate the link; he added that with Malta being such a small community, the MFSA had open channels of communication with the FIM Bank board. In a subsequent meeting, Caruana said it appeared that the information on increased business with Iran was based on growth that had occurred a couple of years ago in FIM Bank branches in northern Africa, but that the MFSA would examine the bank's position and activity anew and report back.

16. (C) Maltese officials responded positively to Levey's requests for vigilance, saying that they understood the risks involved and the impact it could have on the reputation of Malta's financial services sector, which represents about 12% of GDP, a number the GoM hopes will grow to 20% by 2015. The concern for Malta's reputation was echoed throughout the

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day's meetings, and it was clear that Maltese officials had considered the implications of business dealings with Iran. Andre Camilleri informed Levey that MFSA routinely circulated lists of UN and EU sanctions information to all financial institutions and license holders; MFSA has taken an unequivocal stance on being in clear compliance with all UN and EU sanctions.

17. (C) A recent attempt by Iranian banks to use Malta's Euro payment system prompted discussion of the risks within the government. As reported reftel, Minister of Finance Tonio Fenech told Ambassador Bordonaro that the GoM would use any mechanism necessary to prevent Iranian banks from accessing their Euro payment system. This message was echoed by the Deputy Governor of the Central Bank David Pullicino, who has direct responsibility for ensuring the integrity of Malta's Euro payments clearing system. Pullicino hinted that the issue had likely come up because London banks would on May 16 be "pulling out of Target," the existing mechanism for making euro payments, thus forcing London-based banks who needed to process euro payments to find new means of doing so.

18. (C) Pullicino and Camilleri at MFSA voiced concern about the possibility of Iranian banks licensed for operations in the UK or Germany attempting to establish branches in Malta. Pullicino informed U/S Levey that there had been one application from an Iranian bank to open a representative office in Malta, and that this had been rejected outright. Camilleri, MFSA, indicated that the bank seemed to be testing the waters to gauge Malta's response to the application. Maltese officials were specifically concerned that Banks Melli and Mellat, Iranian state-owned banks, have subsidiaries in London and under EU rules such subsidiaries had automatic branching rights in the EU. While there is no indication that these banks were looking at Malta for expansion, in the event that a bank operating in the UK or Germany were to decide to open a branch in Malta, it would be regulated by the home office and Malta would not have jurisdiction. The MFSA would not even be able to monitor

transactions out of such branches.

#### SCREENING OF IRISL CARGO SHIPMENTS

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¶9. (C) Levey also noted Malta's commitment under UNSCR 1803 to screening Islamic Republic of Iran Shipping Lines (IRISL) any cargo for which there is a (reasonable suspicion) that it might be illicit. IRISL uses Malta as its hub in the Mediterranean and has 9 Maltese-flagged ships. Leonard Callus at OPM thanked the USG for its assistance in providing scanning equipment and promised cooperation on political and other levels. This message was echoed by FM Borg and Charles Inguanez, MFA Director General for Economic Affairs and Chairman of Malta's Sanctions Monitoring Board. Malta aims to strike the right balance between protecting the flow of goods through its Freeport and stringently upholding the spirit of the UNSCR(s) that call for monitoring IRISL cargo for shipment of goods prohibited by the UNSC sanctions. GOM interlocutors made it clear they would continue to welcome tips from the USG regarding suspicious cargo shipments that need to be inspected; after the meeting with FM Borg, Inguanez pulled Levey aside to tell him that while the inspections of IRISL cargo had so far been limited, GOM officials were willing to conduct more frequent inspections; they just need to be pointed in the right direction. (Note: With the entry into force of the Proliferation Security Initiative Ship Boarding Agreement (PSI-SBA), channels have been established to share pertinent information with respect to shipments on Maltese flagged carriers. End Note.)

#### COMMENT

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¶10. (C) Across the board, GOM officials clearly understood that it was in Malta's interest to ensure careful scrutiny of Iranian financial activity in Malta. GOM officials had already approached the Embassy with their concerns regarding the request by UK-based Iranian banks to use Malta's Euro payments system. When it comes to countering Iran's abuse of the international financial system, we have a willing partner in Malta, albeit one with somewhat limited resources.  
BORDONARO